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Great Britain.

Board of Trade.

The bank act and the
currency

[London]

[1861]

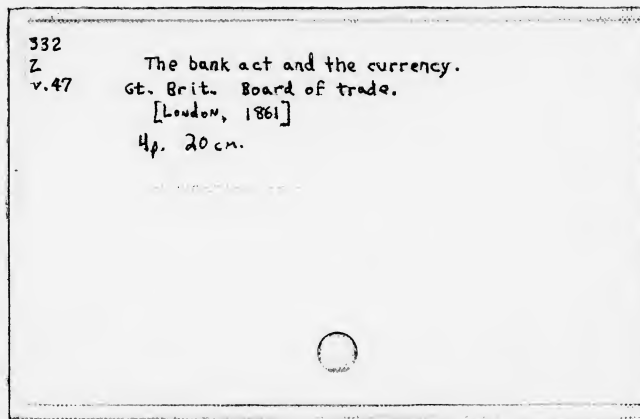
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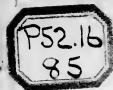
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No. 5

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THE BANK ACT AND THE CURRENCY.

186-?

LIBRARY OF
THE REFORM CLUB
SOUND CURRENCY COMMITTEE,
52 William St., New York.

"THE following Petition was presented to the House of Commons at their last sitting on Tuesday, August 6, by the Right Honble. the President of the Board of Trade, and has since been printed for the use of the members. It is a very elaborate but condensed summary of the whole currency question, emanating from the "*Bank Act and Currency Committee*," in Birchin Lane. It bears but very few signatures, but amongst them are those of some of the most influential firms in the City."—*Daily News*.

"TO THE HON. THE COMMONS OF THE UNITED KINGDOM OF GREAT BRITAIN AND IRELAND IN PARLIAMENT ASSEMBLED.

"THE humble PETITION of the undersigned Merchants and Traders of the City of London sheweth :

"1. That frequent and extreme fluctuations in the value of money and the prices of commodities are most injurious to trade and commerce, and inimical to the progress and general prosperity of the people.

"2. That for the space of 140 years previous to the passing of the Bank Act of 1844 variations in the Bank rate of discount were of rare occurrence, and the rate never fell below 4 per cent., and never (except once in 1839) rose above 5 per cent., and this necessarily tended to produce steadiness and equability in the value of money. But since the passing of that Act fluctuations have been more frequent and more extreme than were ever known before. No less than seventy-nine changes have occurred within the space of seventeen years, and the minimum rate has varied from 2 per cent. to 10 per cent. (being a difference of 500 per cent.), and has sometimes varied more than once during the same week.

"3. Your petitioners believe and submit that these fluctuations are the direct and inevitable results of futile and vicious attempts, by legislative measures, to erect a fictitious system of currency upon a false basis, and by a series of artificial regulations and restrictions, to render conformable to natural laws operations which, in the nature of things must ever be in perpetual conflict with them.

"4. That, contrary to every sound principle of political and financial economy, our currency is made dependent upon the bank note issues of a mere banking corporation, which is already burdened with the collection of the public revenue and the payment of the public creditor, besides being encumbered by the onerous responsibilities of a bank of deposit and a bank of discount, and the circulation is therefore complicated with the banking operations of its issuers, in addition to the speculative or trading operations of the bullion dealers and bankers of this and other countries.

"5. That the whole of such bank-note issues are professedly based upon and payable in gold on demand, but the larger portion of them are in reality not based upon gold, but are issued against a series of unmarketable Government securities, which the Government has no gold to redeem if required, and which the bank could not sell if it were needed.

sary; and the convertibility of such notes can, therefore, be secured only by unnatural and oppressive restrictions and artificial regulations imposed by Act of Parliament. But for that 14,000,000 of notes which there is no gold to meet, there would have been no necessity for the Act of 1844.

"6. That the avowed objects of the promoters of the Act of 1844 were to diminish fluctuations in the value of money and in the prices of commodities, to prevent monetary panics, and to ensure the absolute convertibility of the really inconvertible bank-note. And these objects were to be effected 'by regulating the bank issues according to the foreign exchanges,' and 'by compelling the circulation to contract in the event of unfavorable exchanges, precisely in the same manner as a purely metallic circulation would have contracted.'

"7. That the lamentable failure of that Act, as regards its primary objects, stands recorded in the proceedings of your Honorable House, in the evidence reported by its committees, and in the acts of indemnity which have been rendered necessary by the repeated abrogation, on the part of the executive government, of its most essential provisions.

"8. That the convertibility of the bank note has been secured only at a fearful cost to the circulation,—the circulation, though violently acted upon, in order to adapt it to the state of the foreign exchanges, has not been regulated in accordance therewith: and the attempt to compel the circulation, which during prosperity is inflated by the expansive power of paper, to contract during adversity, according to the law of gold, is founded upon a principle which your petitioners submit is unsound in theory and ruinous in practice.

"9. When credit is good and the rate of discount low, the circulation becomes unduly inflated with bank notes; and money being abundant, prices rise, and as prices rise at home in our favour they rise against us abroad; and as more paper is issued prices continue to rise, and our profits, purchases, and accumulations at paper-made prices go on increasing, until in the plenitude of our wealth and abundance the investments we have made in foreign loans, funds, and securities, and other importations in extravagant excess of our exportations turn the exchanges against us. And then the prices created and the debts contracted in a paper currency must be paid and discharged in gold, and we have not gold sufficient.

"10. That adverse exchanges, and the consequent drains of gold have the natural tendency, by contracting the circulation, to reduce the prices of commodities, and the Act of 1844 appears to have been specially designed and contrived to accelerate and exaggerate that reduction by enforced advances in the bank rate of discount, making money (both gold and bank notes) dear to the British trader, because British gold happens to be cheap to the foreigner; the object contemplated and desired, and the end effected, being to compel British manufacturers and traders to force sales of their commodities at reduced prices, in order that the foreigner may be tempted to bring back the gold to purchase them.

"11. Your petitioners respectfully submit that the object of the Legislature, if under such circumstances it intermeddles at all, should be to retard and moderate that reduction of prices, until the pressure shall be reduced or obviated, and the exchange be rectified by the operation of other and more natural means; and that the adoption of the contrary principle as the basis of legislation, has the direct tendency to produce the frequent, extreme and ruinous fluctuations and panics which the Act was professedly intended to prevent.

"12. That the effect of these fluctuations upon trade and commerce has been disastrous in the extreme, every drain of gold, to the extent of a few millions only, and from whatever cause arising,—whether from an

adverse balance of trade, wars, or rumours of wars on the Continent, foreign loans, or the speculative operations of foreign banks or billion dealers,—being met by successive advances from time to time in the bank rate of discount, and a consequent depreciation in the values of mercantile commodities and securities, to the extent, in the whole, of hundreds of millions; involving bankruptcy and ruin to great numbers of otherwise solvent manufacturers and traders, a diminution of employment to the artisan and labourer, and a reduction of their wages; and resulting in a degree of poverty and privation, speculation and demoralization in the mercantile and manufacturing communities, affecting more or less the well being of millions of the people.

"13. Your petitioners submit that the creation of currency, or in other words, the conversion of an adequate proportion of the capital of the country into portable and convenient media of exchange, for the transfer and circulation of the remainder, ought to be free, and that if free, the currency would regulate itself in accordance with the natural law of supply and demand, and the requirements of trade and taxation.

"14. That the whole of our currency being based upon or convertible into gold, is subject to "those natural laws which govern the distribution of the precious metals throughout the world," and any legislative restriction upon the acquisition of gold is in direct contravention of those laws.

"15. That the law which compels the Bank of England, as the issuer of the currency, to take in exchange all gold that may be brought to it at 3*l*. 17*s*. 9*d*., and to pay all gold that may be demanded from it at 3*l*. 17*s*. 10*d*., virtually fixes the exchangeable value or price of that metal, and deprives it of its just marketable value, and thereby renders it unnaturally cheap in this country, whenever its market price rises above our fixed price, in any other country in the world.

"16. Whenever, therefore, from any cause whatever, the market price of gold rises in other countries above its fixed price here, it must, in accordance with the natural law, depart from the country where it is cheap to the country where it is dear, the profit derivable upon the transit operating as a bounty upon its exportation. And all past experience proves that so long as that profit can be realised no law can prevent its exportation.

"17. It is a principle in political economy, that an increase in the value of the commodities produced or consumed in any country, will necessitate a commensurate increase in the quantity of the money of that country, to circulate and exchange them. And in like manner any increase in the value of the commodities produced and exchanged amongst several countries, will require a commensurate increase in the quantity of the money common to all of them, to effect the circulation and exchange of such commodities.

"18. That as in the former case, those individuals who bought more than they sold, would require more money to give in exchange for the commodities they consumed, so in the latter case that country which imports more than it exports, will require more of the universal money to give in exchange for the excess of its imports, and will therefore require unrestricted freedom in obtaining gold, the raw material of that money.

"19. That the home trade, and the foreign commerce of this country, have enormously increased since the passing of the Act of 1844, and such increase rendered necessary a proportionate increase in the currency, and of the metallic basis on which it rests; but no such increase has been provided for,—the fixed issues of the Bank of England remain the same; the fixed issues of the country banks remain about the same, with a tendency to diminution, but no power to increase; and the price or exchangeable value of gold, the only other source of increase possible, still remains virtually fixed by Act of Parliament.

"20. That such increase of trade and commerce, under such circumstances, has been rendered possible only by an exaggerated multiplication of bills of exchange, cheques and notes; by greatly increased banking operations, and by the extraordinary facilities for economising the currency, afforded by the Bankers' Clearing-house. And so far as regards the home or inland trade these aids and appliances may have proved sufficient; but even as regards the home trade, only so long as the basis on which the whole of them rest, shall not have been unduly contracted by the exigent demands of our foreign commerce for gold.

"21. That the increase of our foreign commerce required a commensurate increase in the quantity of gold, to enable us to balance the foreign exchanges when unfavorable, and to sustain without inconvenience the more frequent and heavier drains of gold arising therefrom—but the price of gold remaining fixed here, and having a tendency to rise in other countries, there has been no possibility of our obtaining such increase, or of retaining it (notwithstanding the enormous influx of gold from Australia and California); nor any means of supplying the deficiency by such substitutes as bills of exchange &c., afford in the case of our inland trade. Hence the total derangement of both our foreign and inland trade whenever foreign commerce requires gold.

"22. Gold, like water, will find its own level; and it is clear that when gold is flowing from us it cannot at the same time be flowing to us; and our main resource therefore in a period of pressure must be the diminished and diminishing stock on hand at the time of its commencement. And the efflux of that gold can only be arrested by reducing the values of all mercantile commodities, from the paper or bank-note prices on the basis of which they were created, down to, and below, the barter level of gold; and that involves ruin to the industrious manufacturer, for the enrichment of the banker and capitalist; and that is the operation and effect of the Bank Act of 1844.

"YOUR PETITIONERS therefore humbly pray that your honorable House will be pleased to institute further enquiry—

"1. As to the principles and operation of the Bank Act of 1844, and especially with reference to the adequacy of its provisions for the great increase of trade and commerce since the passing of that Act.

"2. Whether it is expedient that the issue and management of the currency should continue to be dependent upon, or complicated with, the business of a banking corporation; or should be transferred to some responsible Minister of the Crown.

"3. Whether the fourteen millions of bank notes now issued against Government securities, should not, if still made payable in gold on demand, have gold provided to meet them on demand; or, if not, whether such notes should not be rendered inconvertible.

"4. Whether it is not necessary,—and whether by some means the manager of the currency cannot be enabled to command and maintain larger reserves of gold, to meet the possible eventualities of a largely increased and still increasing foreign commerce.

"5. And generally, whether such a system may not be adopted, as will permit of the more natural expansion and contraction of the currency with the increase and diminution of trade; and of its self-regulation, according to the laws of supply and demand.

"Or that your Honorable House will be pleased to take such other proceedings herein as to your Honorable House may seem meet.

**END OF
TITLE**